

## Federal and Missouri State Investment Tax Credits for Certified Rehabilitation of Historic Buildings—A Comparison

	Federal Credit	State Credit	COMMENTS
<b>What is a tax credit?</b>	A tax credit lowers the tax owed. A tax credit differs from a tax deduction in that an income tax deduction lowers the amount of income subject to taxation while a dollar of tax credits reduces the income tax owed by one dollar.		
<b>What tax credits are available for the rehabilitation of historic buildings?</b>	The federal credit provides an investment tax credit equal to <b>20%</b> of rehabilitation costs. The federal credits are administered by the State Historic Preservation Office in the Missouri Department of Natural Resources and the National Park Service.	The state credit provides an investment tax credit equal to <b>25%</b> of all costs associated with rehabilitation made after January 1, 1998. The state credits are administered by the Community Development Division in the Missouri Department of Economic Development .	The credits can be used in combination for the rehabilitation of commercial or income producing properties. Rehabilitation of non-income producing residential properties qualify for the state credits only.
<b>For the purpose of the credits, what makes a building “historic”?</b>	To be eligible for the federal credits, a building must be <b>“historic”</b> To qualify as “historic” a building must be either: <ul style="list-style-type: none"> <li>♦Listed individually in the National Register of Historic Places, or</li> <li>♦Be a contributing element of National Register of Historic Places Historic district, or</li> <li>♦Be a contributing element of a Local Historic District that has been certified by U.S. Department of the Interior as substantially meeting National Register criteria.</li> </ul>	To be eligible for the state credits, a building must be <b>“historic”</b> To qualify as “historic” a building must be either: <ul style="list-style-type: none"> <li>♦Listed individually in the National Register of Historic Places, or</li> <li>♦Be a contributing element of National Register of Historic Places Historic district, or</li> <li>♦Be a contributing element of a Local Historic District that has been certified by U.S. Department of the Interior as substantially meeting National Register criteria.</li> </ul>	The criteria for eligibility are the same for both the federal and state credits. Unlike some states, Missouri does not have a separate state register of historic places.  To obtain information on Certified Local Historic Districts, please contact the State Historic Preservation Office in the Department of Natural Resources.
<b>What types of buildings qualify for the credits?</b>	The federal credits are limited to <b>income-producing, depreciable property</b> only. The property may be either commercial or residential rental property. A taxpayer’s personal residence <b>would not</b> qualify for the federal credit.	The state credits also apply to income-producing property including either commercial or residential rental property. Additionally, a <b>taxpayer’s personal residence can qualify</b> for the state credit if the property is historic and if the minimum investment threshold is met.	Rehabilitation of owner-occupied residences do not qualify for the federal credits. Such properties are eligible for the state credits, however.

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<b>Is there a minimum investment that an owner must make to qualify for the credits?</b>	The rehabilitation must be <b>“substantial”</b> meaning that a minimum amount must be invested during the rehab. The threshold requirement for the federal program is <b>\$5,000.00 or the adjusted basis of the property whichever is larger</b> within a 24-month period.	The threshold requirement is <b>50% of the basis</b> as defined.	For a taxpayer seeking both credits, there is a potential that their project might meet one but not the other of the threshold requirements. Note that the federal credits use the <b>‘adjusted basis’</b> while the state credits use the <b>‘basis’</b> for determining if the threshold has been met.
<b>What is the “adjusted basis” of a building?</b>	<b>“Basis”</b> is the cost, or fair market value of the property at the time of acquisition, or as otherwise defined in the United States Internal Revenue Code. The <b>“adjusted basis”</b> of a building is essentially the current book value of the building. It is determined by taking the purchase price of the building and subtracting the value of the land (which does not depreciate). Any previously claimed depreciation is subtracted from this figure and the value of any previously made improvements is added to the figure. A taxpayer’s accountant can provide information on determining the basis of a property.		
<b>What rehabilitation work qualifies for the credits?</b>	Qualified work includes: costs associated with work undertaken on the historic building, as well as architectural and engineering fees, legal expenses, development fees, and other construction-related costs, if such costs are added to the basis of the property and are determined to be reasonable and related to the services performed.	Total costs incurred on rehabilitation shall include but not be limited to qualified rehabilitation expenditures as defined under section 47(c)(2)(A) of the Internal Revenue Code of 1986 as amended.	Acquisition costs, furnishing costs, new additions that expand the building, new building construction, parking lots, sidewalks, landscaping are not allowed under the federal and state programs.
<b>Are there certain standards that must be followed in order to qualify for the credits?</b>	In order to qualify for the federal credits, the rehabilitation project must follow the <b>Secretary of the Interior’s Standards for Rehabilitation.</b>	In order to qualify for the state credits, the rehabilitation project must follow the <b>Secretary of the Interior’s Standards for Rehabilitation.</b>	The same standards are followed for both the state and federal programs. A rehabilitation project approved by the National Park Service as meeting the Secretary’s Standards will be approved at the state level.  Copies of the Secretary’s Standards are included in both the federal and state tax credit application packets. Additional information on the Standards can be obtained by contacting the State Historic Preservation Office in the Department of Natural Resources.

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<b>What if a building is not currently listed on the National Register?</b>	Owners of buildings that are not yet listed in the National Register may use the Historic Preservation Certification Application, Part 1, to request a preliminary determination of significance from the National Park Service. Such a determination allows the owner to proceed with the rehabilitation while the process of nominating a building or district continues. Preliminary determinations, however, are not binding and become final only when the building or district is listed in the National Register.	Owners may submit their state tax project for review prior to a property being listed on the National Register. State credits will not be awarded, however, until the property is formally listed in the Register. An owner may begin rehabilitation work prior to a property being listed, but they do so at their own risk.	Information on listing properties in the National Register of Historic Places can be obtained by contacting the State Historic Preservation Office in the Department of Natural Resources.
<b>Who reviews the proposed work to ensure that the Secretary of the Interior's Standards are followed?</b>	<p>The taxpayer submits a Part II application outlining proposed rehabilitation work. This is reviewed initially by the State Historic Preservation Office in the Department of Natural Resource. The application is then submitted to the National Park Service for final certification.</p> <p>The State Historic Preservation Office and the National Park Service are permitted to inspect a property within the 5-year recapture period and the certificate can be revoked if it is found that work was not carried out as certified.</p>	The taxpayer submits to the Department of Economic Development the Part IB of the state application outlining the proposed rehabilitation work. To ensure that the proposed work meets the Secretary of the Interior's Standards for Rehabilitation, the State Historic Preservation Office in the Department of Natural Resources reviews the application.	
<b>Are there provisions for recapture of the credit if a property is sold?</b>	Yes. A property owner must maintain ownership for a period of five years after the credit is issued. If the owner sells the property within that five-year period, 20% of the credit will be recaptured for each year remaining.	No.	

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<b>If a taxpayer's tax liability in a given year is less than the amount of the credit, can the credit be carried over?</b>	Yes. The federal tax credits can be carried back one year and forward twenty years or until the credit is exhausted.	Yes. The state tax credits can be carried back three years and forward ten years. The credits are to be claimed against the taxes imposed pursuant to chapters 143 and 148 RSMo, except for sections 143.191 to 143.265, RSMo.	
<b>How does a person obtain an application packet?</b>	<p>The federal application package can be obtained by contacting the State Historic Preservation Office in the Department of Natural Resources. The address is included on the final page of this publication.</p> <p>The federal application is also available online at the National Park Service web site: <b><a href="http://www2.cr.nps.gov/tps/tax/hpcappl.htm">www2.cr.nps.gov/tps/tax/hpcappl.htm</a></b></p>	<p>The state application can be obtained by contacting the Community Development Division in the Department of Economic Development. The address is included on the final page of this publication.</p> <p>The state application is also available online at the Department of Economic Development web site: <b><a href="http://www.ecodev.state.mo.us/cd/hptc.html">www.ecodev.state.mo.us/cd/hptc.html</a></b></p>	
<b>What is the process for obtaining the credits?</b>	<p>To obtain the credit, a taxpayer must submit to the State Historic Preservation Office a Preservation Certification Application. The application is a three-part form. Part 1 is used to determine if a property is historic. Part 2 outlines in detail the proposed rehabilitation work. Part 3 is submitted once the rehabilitation work is completed.</p> <p>After the State Historic Preservation Office reviews the Part 3, it is forwarded to the National Park Service. The National Park Service issues the final certification, which is filed with the taxpayer's federal income tax return.</p>	The applicant submits a Part 1 to the Department of Economic Development prior to the start of a project. Once the project has been approved and work is completed, the applicant submits a Part 2. The Department of Economic Development will provide the taxpayer with the documentation to be submitted with the taxpayer's state income tax return.	It is strongly recommended that an owner seeking <b>BOTH</b> federal and state credits should apply to <b>obtain the federal credits first</b> . Once a project has been reviewed and approved at the federal level, no subsequent state review of the scope of work is required.

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<b>When is the tax credit claimed?</b>	Generally, the tax credit is claimed on IRS form 3468 for the tax year in which the rehabilitated building is placed in service.	Generally the state tax credits are claimed on Missouri form MO-TC for the year in which the rehabilitated building is placed in service.	
<b>Timeframe for Review</b>	Federal tax act projects are allowed 30 days for review at the state level and 45 days for review at the federal level	The period for review of projects seeking only the state credit is 30 working days. This permits time for initial processing at the Department of Economic Development, review of proposed work by the State Historic Preservation Office and final processing by the Department of Economic Development for final processing. If a project is seeking both credits and has been approved at the federal level, this time frame will be significantly reduced.	These timeframes assume that all adequate information has been supplied in the application. Should it be necessary to request clarification or additional information from the applicant, the clock would stop at that point and be started again once adequate information is supplied for review.
<b>Can a project utilize multiple investors?</b>	Yes, however passive loss restrictions for federal projects would apply	State law permits distribution of credits to investors based on a pro-rata basis or an executed agreement among the investors	<b>It is STRONGLY RECOMMENDED that the advice of a qualified tax professional should be sought before proceeding with any project involving multiple investors!</b>
<b>Can the credits be sold?</b>	Federal credits cannot be sold.	Effective August 28, 1998, state credits can be sold. Involvement by not-for-profits in the sale of state credits is not allowed.	
<b>Do federal alternative minimum tax provisions apply?</b>	Yes. Nonrefundable credits, such as the rehabilitation tax credit may <b>not</b> be used to reduce the alternative minimum tax. If a taxpayer cannot use the tax credit because of the alternative minimum tax, the credit can be carried back or forward	Non-applicable.	

	<b>Federal Credit</b>	<b>State Credit</b>	<b>Comments</b>
<b>Is there an application fee for seeking the credits?</b>	Yes. Fees are assessed by the National Park Service to review the application. The fee is based on the anticipated cost of the project. The fee must be paid before the Park Service will review the application. Fees range from \$500 for projects costing between \$20,000 to \$99,000 to \$2,500 for projects costing \$1,000,000 or more.	No	The National Park Service handles billing for the federal project review.
<b>Are there other things to keep in mind when undertaking a tax credit rehabilitation?</b>	<p>♦<b>Apply as soon as possible—preferably BEFORE beginning work.</b> Consult with the State Historic Preservation Office for the federal credits or the Department of Economic Development for the state credits as soon as you can. Read carefully the program applications and follow instructions carefully.</p> <p>♦<b>Photograph your building inside and out BEFORE beginning work.</b> Before photographs are especially important. Without them, it may be impossible to review a project. A photo-documentation instruction sheet will be sent with the application packets.</p> <p>♦<b>Read and follow the “Secretary of the Interior’s Standards for Rehabilitation.</b> Consult with the State Historic Preservation Office for information on interpreting the Standards.</p> <p>♦<b>It is STRONGLY RECOMMENDED that the advice of a qualified tax professional should be sought before proceeding with any tax credit rehabilitation project!</b></p>		

## FOR ADDITIONAL INFORMATION:

For information relating to the Federal Credits and questions regarding National Register status or eligibility, contact:

State **Historic Preservation Office**  
**Missouri Department of Natural Resources**  
**P.O. Box 176**  
**Jefferson City, MO 65102**  
**(573) 751-7860**

For information regarding the Missouri State tax credits for rehabilitation, contact:

**Community Development Division**  
**Missouri Department of Economic Development**  
**P.O. Box 118**  
**Jefferson City, MO 65102**  
**(573) 751-5981**

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